# Management of the Department of Education
## Status Report
## October 30, 2002

**Introduction**

This report documents the substantial progress made by the Department of Education in meeting the management challenges that hindered the achievement of critical program objectives in support of raising the quality of education at all levels for all children and adults. It chronicles progress in 11 related management areas, since April 2001, when Secretary Paige decided that management improvements were necessary and would occur.

**Progress**

*Blueprint for Management Excellence*

Transforming the Department of Education into a high-performance organization and restoring public trust requires continuous improvement over an extended period. In October 2001, the Management Improvement Team (MIT) released the *Blueprint for Management Excellence* (*Blueprint*) that included a detailed Action Plan to improve the accountability and performance of the Department. Through the *Blueprint's* Action Plan, the Department is achieving the results Secretary Paige envisioned in April 2001, as well as results identified in the *President's Management Agenda* (*PMA*). At the one-year anniversary of the *Blueprint,* we have completed or closed 76% of the original planned actions. An additional 9% of the planned actions are due to be completed in line with their originally scheduled dates. (Please reference Attachment 1 – List of Blueprint Action Items Closed/Completed and Attachment 2 – Graphic Display of Blueprint Action Items Status).

*Strategic Plan*

Before we could hope to achieve our major program goals, we had to address our management problems through the *Blueprint* process. By February 2002, with progress on our management problems well under way using the *Blueprint* process, we were able to turn our attention to the 2002-2007 *Strategic Plan* and the 2002-2003 *Annual Plan.* We connected the *Blueprint* to the *Strategic Plan* by making "Establish Management Excellence throughout the Department of Education" Goal Six in the *Strategic Plan*, recognizing that without high quality management, none of the other goals can be achieved. While the *Strategic Plan* provides the vision for our long-term objectives, the *Annual Plan* sets the expectation for performance and missions of the entire Department. The *Strategic Plan*'s *2002-2003 Annual Plan* shows how we will make performance the basis of every management and program decision.

Executive Management Team (EMT)

We announced the creation of the Executive Management Team (EMT) in the *Blueprint*. The EMT works to align ongoing management improvement efforts with the

Department's *Strategic Plan*; to maintain the Department's focus on management excellence and accountability for results; and to measure progress in implementing the *Blueprint*. Collectively, the EMT is responsible for realizing the *Blueprint* goals. The Deputy Secretary chairs the EMT. The Chief Financial Officer, the Assistant Secretary for Management, the General Counsel, the Chief Information Officer, the Director of the Budget Service, the Director of the Executive Secretariat, and the Chief Operating Officer of Federal Student Aid serve as permanent team members. All program Assistant Secretaries join the EMT monthly to address issues of the relationship of management initiatives to achieving program goals. The Inspector General serves in an advisory capacity.

The Deputy Secretary continues to direct the activities of the MIT, which is now working as executive staff to the EMT. The MIT identifies which officials are directly responsible for the success of each initiative and ensures that the EMT has the information needed to hold them accountable for resolving problems and meeting goals. The MIT updates the status of *Blueprint* action items weekly, closely monitors adherence to project plans supporting *Blueprint* actions, and updates the *Blueprint* Action Plan when additional action items are needed. The MIT identifies new issues that may prevent or delay meeting *Blueprint* objectives and brings them to the EMT on a timely basis with recommendations for resolution. It also ensures consistency between the Department's progress on the *Blueprint* and progress on meeting the standards for success for the *PMA*.

Financial Management

Although the Department's Chief Financial Officer (CFO) has been on the job for less than a year, his impact has been extremely productive. The CFO is committed to achieving the *Blueprint* goal of obtaining a clean audit opinion, recognizing that a clean opinion is an indicator both of the adequacy of the Department's stewardship of taxpayer dollars and the ability of our financial management to provide the timely and accurate data that program managers need to achieve their goals. Working with the EMT, the Office of Inspector General (OIG), Federal Student Aid (FSA), the Budget Service and the Ernst and Young auditors, the Office of the Chief Financial Officer (OCFO) is on schedule to produce the Department's financial statements. This is an important achievement considering Oracle Federal Financials was implemented as the Department's general ledger in FY 2002 and the financial statements are due to OMB one month earlier than last year.

Last year, the Department quickly obtained an interim disaster recovery site for financial systems while at the same time it procured and began outfitting a permanent Disaster Recovery facility by installing and testing disaster recovery systems that will be completed over the next 12 months. The Department will be transferring the financial systems in calendar year 2003 to the permanent facility.

The Department now has a general ledger that meets Federal accounting standards. The interim financial statements were prepared using reports from the new system and the auditors are now testing the information in support of those systems and statements. While we know for certain that we have made great progress in putting the Department's financial house in order, it will be up to Ernst and Young to issue its opinion on the financial statements.  In January 2003, we will know just how much progress has been made in the eyes of the independent auditors.

In the area of erroneous payments, we have built upon the initial actions identified in the *Blueprint* by establishing specific annual targets for the reduction and/or elimination of both the numbers and amounts of erroneous payments by 10% per year through FY 2007 (Strategic Plan - Performance Measures of Objective 6.1).  We are establishing policies and procedures for assessing agency and program risks resulting from erroneous payments, ensuring action is taken to reduce those risks and erroneous payments, and reporting the results of the actions taken.

Guided by the General Accounting Office's (GAO) audit and work done by the OIG, new policies and procedures were implemented and aimed at reducing the Department's vulnerability to future improper use of purchase cards.  We issued a revised procedures directive in January 2002, which provided instructions to cardholders and to Approving Officials who are responsible for reviewing and approving purchase card transactions.  With the Department's new electronic reconciliation and payment approval process, the cardholder is required to provide reports to the Approving Official that document the cardholder's transaction activity for the billing period along with the hard copy receipts for all purchases.  Further, the OCFO distributes monthly management reports to each Principal Officer that enable a review of each office's purchase card transaction activity.  The OCFO has trained all Approving Officials and all Alternate Approving Officials in the new procedures.   OMB has referred to the Department's new policies and procedures for purchase cards as "best practices."

Misuse of purchase and travel cards is now specifically included in the Department's Table of Penalties with the desired effect of reducing misuse and abuse of government issued credit cards.  The Department contends that increased employee awareness of the specific penalties for card abuse, combined with the knowledge that we are taking adverse action against employees who continue to break the rules, will reduce the instances of misuse.  We recognize that reviewing and improving internal controls is an ongoing task, and the Department intends to remain vigilant in this area.

Student Financial Assistance Programs "High-Risk" Designation

The Secretary made it very clear that one of his specific goals was for the Student Financial Assistance programs to be removed from GAO's high-risk list.  The Deputy Secretary met with GAO Comptroller General David Walker regarding this issue, and on

August 1, 2001, GAO provided a letter to the Department with a specific list of actions that, if taken properly, will remove the Student Financial Assistance programs' high-risk designation. The primary reason student aid programs continue to be at high risk for fraud, waste, error, and mismanagement is that the Department lacked the financial and information system controls needed to maintain the integrity of their operations.

In order to address this issue and the issue of obtaining a clean audit, as noted in the Financial Management discussion above, the CFO and the Deputy Secretary have focused the Department's resources on the implementation of a new core financial management system. This includes a new FSA subsidiary ledger (using Oracle Federal Financials) and improved processes and procedures to support the new systems. It also included major improvements in reconciliation's among all Department systems and the Treasury reporting system. These initiatives support the clean opinion that is necessary to remove the high-risk designation.

The unique nature of the Student Financial Assistance programs contributes substantially to the high-risk designation. There simply isn't another major federal lending program that gives out billions of dollars to young people and families with no credit history or co-signers. We provide this assistance because the Federal government is willing to accept the risk/probability of defaults in return for enabling a greater number of low-income students to obtain higher education. Also, the sheer numbers of participants delivering and receiving funds cause the programs to be inherently riskier than smaller programs. The Department is committed to demonstrating to GAO and others that it is managing high-risk programs effectively and therefore the Student Financial Assistance programs should be removed from GAO's high-risk list.

The MIT worked with FSA to ensure that actions were focused in areas that would have the greatest impact in FY 2002. To reduce the Student Financial Aid programs' erroneous payments, the Department, Treasury and OMB, jointly proposed, on August 9, 2002, new IRS Tax Code legislation. This legislation is aimed at improving the student eligibility verification process with tax-return information. If implemented, this legislation has the potential for eliminating hundreds of millions of dollars of erroneous payments to students each year. In addition, to address many of the nonmaterial erroneous payment issues reported in recent GAO audits, FSA has improved its monitoring of schools. FSA is now using data mining[1] to help identify schools where problems may exist, and internal control improvements have been made in the Student Financial Aid programs delivery systems to ensure that widespread abuse is averted.

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[1] "The nontrivial process of identifying valid, novel, potentially useful, and ultimately understandable patterns in data." Fayyad, U., Piatetsky-Shapiro, G., Smyth, P. and Uthurusamy, R., editors. *Advances in Knowledge Discovery and Data Mining*, MIT Press, Cambridge, Mass., 1996.

The Department has made significant strides in the area of student loan default management and prevention, meeting its targets for FY 2002 default collections, and working with schools and the lending community to keep the cohort default rate (measuring defaults over a two year period) under 8%. The most recent cohort default rate is an extremely low 5.9%, despite economic conditions.

During FY 2002, the Deputy Secretary also recruited and hired a new FSA Chief Operating Officer (COO) who will significantly enhance the Department's ability to make the improvements GAO recommends in the areas of information technology, human capital and program oversight. The new COO is fully committed to the *Blueprint* goal of removing the Student Financial Assistance programs from the GAO high-risk list as part of her continuing efforts to improve the quality of FSA management.

IT Security Improvements

Over the past two years the Department of Education has taken aggressive steps to develop a fully integrated Government Information Security Reform Act (GISRA) compliant IT security program modeled directly on business best practices and Office of Management and Budget (OMB) and National Institute of Standards and Technology (NIST) guidance. The Department has addressed many of the weaknesses identified in the FY 2001 GISRA self-assessment and OIG audit by enhancing most of the elements of our IT security program. In FY 2002, the Department focused on strengthening its IT security in the areas of management, technical, and operational policy and procedural controls. The Department now has a full suite of documented policies, procedures, and guidance that provide the framework for the IT security program. NIST has posted several Department IT security guide documents on its "best practices" web site (specifically, our Systems Inventory Guide, Risk Assessments template, and Certification and Accreditation documentation template). In addition, NIST and OMB have made positive comments about our IT security metrics program, our guide for security integration into the System Development Life Cycle (which is already being used as a model by 6 other Federal agencies), and our IT Security Cost Estimation Guide.

Both OMB and NIST have commended the Department for our thorough reporting and aggressive approach to correcting IT security deficiencies identified in the Department's annual GISRA reports and action plan documents. Earlier this year, the Department completed independent, NIST-compliant risk assessments on all 96 of the Department's general support systems and major applications. This critical first step in the certification and accreditation of the Department's systems identified numerous vulnerabilities and areas of risk, the correction of which has been incorporated into the agency's GISRA action plan for FY 2003.

Audit Resolution

In April 2001, the MIT identified 661 management improvement recommendations made by GAO, OIG and the financial statement auditors that had not been implemented. Since April 2001, 280 new audit recommendations were added to the original 661 recommendations.

The MIT has placed renewed emphasis on implementing these important recommendations. Of the 661 original and 280 new management related recommendations, the Department has completed corrective actions on 186 audit recommendations where corrective action plans were developed prior to the creation of the MIT. For those recommendations where corrective action plans were developed after the creation of the MIT, the Department has completed 572 recommendations. Currently, the Department is working to ensure that the remaining 183 audit recommendations are implemented in a timely and efficient manner.

Initially, the MIT prioritized the recommendations, utilized an interim tracking mechanism for them, worked with the Principal Offices to facilitate actions, and monitored their completion. The MIT worked with senior management officials to determine the steps necessary to satisfy auditor concerns and to help develop corrective action plans. Finally, the MIT took steps to ensure the process would continue after completing its initial work. Recently, MIT involvement has been limited to tracking performance against targets established in the *Blueprint*, while the work of resolving audit findings is the responsibility of OCFO and the Principal Offices. The Status of Internal Audits report dated October 28, 2002 indicates that only 1% of the recommendations are due for corrective action plan development and that only 10% of the recommendations are due for closure. The Department has made improvements by addressing the identified issues and bringing any overdue items to the attention of the EMT. (Please reference Attachment 4 – Summary Status of Internal Audits by Office).

Executive Information System

We have identified information technology that will allow us to integrate the numerous reporting and tracking systems that already exist within the Department. We are currently implementing an IT tool, MS Project Server, Department-wide. MS Project Server will give the Department enterprise-wide project management and reporting capability. It will allow the Department to integrate management reporting and tracking systems that have already been developed by individual offices and at the enterprise level. This tool will enable the integration of reporting systems such as the *Strategic Plan*, the *Blueprint for Management Excellence*, *"No Child Left Behind,"* and other systems maintained by OCFO, OCIO, OM and FSA. MS Project Server will allow

creativity and flexibility to flourish at the office level while providing key information (e.g., GPRA data), at the enterprise level, to senior management.

The next step is to explore the feasibility of using MS Project Server in conjunction with a web-based reporting tool.  We will explore the use of customized web-based management reports that extract data from existing databases.  A goal is to add increased flexibility in report-writing, ease of use with all databases and the ability to use web links to drill down into the details at the office level.  We will explore the use of tools that will give senior management the ability to obtain critical management information in a usable format so that informed management decisions can be made in a timely manner.

OMB Scorecard

OMB tracks the Department's progress in its implementation of the *PMA*.  The Department's high scores from OMB are due in large part to the fact that the Department's had taken early action to address management problems.  The Department was already addressing management issues and creating plans when the *PMA* was announced.  OMB issues quarterly scorecards to each agency and reports the scores to the public semiannually.  The June 2002 scorecard, the most recent scorecard issued publicly, was extremely favorable to the Department.  No Cabinet-level agency scored better than the Department on progress in implementing the *PMA*.  NASA was the only non-Cabinet agency that received a higher score than the Department.  The scorecard for the quarter ending September 30 continues showing the Department "green" on four of five government-wide initiatives with a "yellow" in financial management pending the outcome of Ernst and Young's audit of the Department's FY 2002 financial statements.  OMB has informed us that: "ED has developed robust plans to address longstanding problems pertaining to financial management, high-risk in student financial aid programs, and IT security."

Culture of Accountability

The Secretary views the most important asset of the Department of Education to be the public's respect and confidence.  He asked employees to help clarify organizational and individual performance goals; identify positive results we provide for the taxpayer; suggest ways we can improve our program results; and design and embrace improved internal controls -- safety procedures that protect against errors or abuse.  The effort to achieve culture change at the Department is well under way and has been enhanced by the work of the Culture of Accountability Team.  This team, consisting of 18 career employees, released the *Culture of Accountability Report* in December 2001.  The report addressed leadership, management, communication, work processes, skills gaps, performance evaluation, and other issues on the minds of Department of Education employees.  Several key recommendations that came from that report and have already been implemented are:

- The Secretary held meetings for all staff on the strategic plan, and is now meeting with the staff of each Principal Office to share his vision and talk directly with them about his initiatives. The Secretary also hosts monthly lunches with staff from across the Department to learn more about the work and concerns of front-line employees.

- A "Meet the Senior Officers" series is underway. Senior Officers make lunchtime presentations on the initiatives in their offices, to improve communication across offices and offer employees a more complete view of the Department's activities.

- Senior Leadership is working to communicate Department priorities and strategic direction. Presentations and e-mail notices announced the release of the strategic plan; annual plan; Culture of Accountability Report; and the One-ED initiative. The Department plans and priorities are always available to employees on the intranet.

- The Department's priority actions, which focus the Department's work on the strategic plan objectives, are published in the annual plan. Each office has a series of actions to pursue in support of the strategic goals. These action steps are the basis of each Senior Officer's performance agreement with the Secretary. Senior Officers also have performance agreements with their managers (SES), which are consistent with the strategic plan.

- The Department has a new performance appraisal system ready to replace GPAS. The new system, EDPAS, includes multiple performance levels and more job-specific performance criteria.

The recommendations that have not yet been implemented have become an inherent part of the One-ED initiative (see below) and will be included as part of the Department's annual plan and action tracking systems. (Please reference Attachment 3 – September 2002 Status of the *Culture of Accountability Report* Recommendations).

One-ED

This summer we launched the One-ED initiative which brings together the Department's human capital, restructuring and competitive sourcing plans. The Assistant Secretary for Management is responsible for leading the Department through One-ED and its analytical business case approach to organizational and human capital review and transformation. This is a cyclical process to examine and improve the composition and skills of the Department's workforce, its work processes, and its management structure to ensure that all Department services are provided with quality, timeliness, and for the best value. In September we hired Booz-Allen and Hamilton to assist us in the transformation process. Reviews are ongoing in five functional areas with more planned over the next three years.

One-ED has merited the attention of OMB and OPM and has been promoted by OMB as a model for other agencies to follow.

**Conclusion**

The management improvements we have implemented will help enable the Department to move toward becoming a model agency of management and program excellence. Plans, of course, are not by themselves sufficient to ensure success. Department of Education management must remain vigilant and continually monitor plan implementation, make adjustments as needed, and allocate resources, as necessary, to ensure that we continue to make improvements and successfully address any lingering problems we have not yet overcome. The Department's extraordinary success implementing its plans over the past year leads us to conclude that future plans are eminently achievable.

**Attachments**:
1. List of Blueprint Actions completed or closed 10/01-10/02
2. Graphic Display of Blueprint Action Plan status 10/02
3. Summary Status of Internal Audits by Office
4. Status update on Culture of Accountability Report 9/02